Privalia Mexico: Conquering New Markets

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Since its arrival in Mexico in February of 2010, the managerial meetings of the Privalia team had customarily started with good news. This was not just any news, but information that was important because of its exceptional value for those present: New information capable of inspiring the best and most brilliant in all of those that collaborate with the company.

Miguel Giribet, Country Manager of Privalia Mexico, knew that this custom reflected a special way in which the company's founders saw and understood the business. Faithful to the philosophy and values of the firm, Miguel waited for the managers to take their seats in the meeting room, and without further adieu, told them that he had been summoned to Barcelona to meet with the company's founders and chief executives to discuss Privalia's progress in Mexico. Miguel's team reacted to the news with concern. It was easy to see why this was a problem: as things were, this was not exactly good news.

Privalia, an online shopping club for fashion brands founded in 2006 by José Manuel Villanueva and Lucas Carné, had decided to internationalize throughout Europe and Latin America (see Exhibit 1). The objective of the international expansion was to reproduce the overwhelming success they had experienced in Spain, where they expected to surpass 150 million Euros in sales in 2010. The company detected an opportunity to diversify their markets, which is why they decided to invest first in Italy (2007), then in Brazil (2009), and finally in Mexico (2010). They sought synergies in each new market in order to take full advantage of the learning curve.

However, after the first two months of operation in Mexico, the results were not living up to expectations. Although the growth of registered users on the virtual platform had been robust, visits to the website were still not translating into the volume of sales necessary to get out of red numbers. This led company executives to start questioning the expansion strategy.

Miguel knew they had to turn this situation around as soon as possible in order to make sure uncertainty did not put the entire Privalia enterprise in Mexico at risk. In his mind, there were three main areas that needed work:

1. Technological development.
2. Marketing and sales.
3. Logistics and operations.

Miguel spoke with his team about the meeting in Barcelona and asked them to draw up an executive report that would include a concrete plan of action to move the firm in a positive direction in both the short and long terms.

No one in that meeting room, from which a number of Mexico City's skyscrapers could be seen, requested any more details. All were very conscious of what needed to be done, and how much was at stake for the future development of the company.

ORIGINS OF THE BUSINESS

José Manuel Villanueva and Lucas Carné were two young Spaniards who met in 1999 while finishing their MBA program and being recruited by the U.S. consulting firm *Bain & Company*. Passionate about new technologies, they often talked about the possibility of starting their own business that would take advantage of the rapid growth in the e-commerce segment. However, the opportunity they were waiting for did not arrive until 2006.

Lucas Carné suffered an accident that forced him to take a significant amount of time away from work. Removed from the frantic activity of consulting, he took advantage of his forced hiatus by reflecting on what he had done up to that moment, and what he really wanted to do in the future.

After this lengthy period of reflection, he concluded that the time had come to make a change in his life:

> *"During my recovery after the accident I suffered while playing sports, I decided that I wanted to be an entrepreneur because I really didn't like my life the way it was."*[1]

Around that same time, José Manuel Villanueva told him about the existence of a business model based on private sales through the Internet that threatened the traditional model of retail marketing:

> *"This business model of private sales worked very well in other European countries, and therefore we decided to implement it in Spain."*[2]

José Manuel and Lucas analyzed the market and discovered there was no other business with those characteristics operating in Spain, and they realized that adequately satisfying this untapped market could be very profitable. Their intention was not to create something new or unique, but rather they wanted to import, adapt, and improve a model that had been successfully implemented in other countries. So, Privalia was born in June of 2006 as a start-up that functioned like a virtual outlet that marketed Premium fashion brands online.

Definition and Delivery of the Value Proposition

The Privalia model consisted of developing a private online club that offered its members premium brands at discounts of up to 70%. The firm sought to differentiate itself by focusing on the young, urban market, constructing an efficient supply chain, and presenting an innovative marketing strategy. The idea was to generate a credible and quality alternative to traditional retailers and other virtual outlets.

Some of the tactical decisions that supported their value proposition included:

- Develop a simple, accessible, and attractive digital platform.

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1 Statements made by Lucas Carné at the 21st Capital Risk Forum, organized by ESADE Alumni in July 2011.
2 http://www.esade.edu/web/esp/about-esade/aboutus/inspiring-futures/testimonialscampaign/josemanuel-villanueva

- Reach agreements with the principal fashion brands for sale of their goods.
- Develop a policy of trust with associated firms, developing online campaigns in concert with them.
- Communicate with clients through viral marketing promotions, and by employing the innovative *'MemberGetMember'* system, which functions by rewarding members that invite others to join the community, generating the perception of trust and exclusivity.
- Offer discounts of up to 70%, compared to the recommended price in the normal distribution channels.
- Remove middlemen, be they wholesalers, commercial agents, salespeople, or physical stores, and create a direct relationship with the final consumer.
- Avoid having to manage inventory, have the articles stored in brand warehouses, and limit the task to formulating purchase options.
- Create a logistics network with high levels of service in order to deliver products on time and correctly.
- Rotate promotions every 4 or 5 days.
- Offer post-sale services, including the possibility of returning items up to 10 business days after delivery.

The Privalia concept went beyond the traditional outlet, and was more like an authentic show center that not only sold articles from recognized and prestigious brands at very competitive prices, but also communicated a modern, cutting edge fashion concept (see Exhibits 2 and 3).

Every detail in the marketing campaigns was tended to by creating a special design for each item, which included sophisticated graphic design and photographs taken in a studio with the help of models. The challenge was to have the greatest possible impact by sharing these campaigns in advance with the big brands so that they would give their approval, safeguard the brand's image, and maintain the highest standards of exclusivity.

This painstaking process not only involved respecting the associated firms, but also devising a means of creating demand, which included the electronic bulletins that were sent out to registered users. The key to all of this work was orienting everything toward the critical business factors of attracting visitor traffic, and converting these visitors into clients. It was necessary to generate a critical mass that would create a virtuous circle, which required intense coordination and innovation that was meant to achieve a successful mix of three fundamental elements:

- **Product:** Selection of attractive brands, large collections, and the best prices.
- **Payment alternatives:** Diversity of on/off-line payment options.
- **Confidence among suppliers and clients**: Guarantee of maximum security and professionalism.

Success required finding harmony between the individual performance of employees and customer satisfaction, in order to generate the maximum possible loyalty among users and brands. To achieve this level of satisfaction, the best strategy was to build a value proposal around five basic premises: Availability, Functionality, Ease of transaction, Trust and Price (see Exhibit 4).

In terms of the large brands providing the fashion items, there was a need to create a relationship of trust and collaboration that would generate real value for both parties. This relationship would be created by focusing on: Trust, Transparency, Respect for the brand, Security and Sales (see Exhibit 5):

In both cases, trust was a critical variable in creating a competitive portfolio capable of generating demand with a sufficient critical mass. All of this was focused on achieving three greater objectives: 1) Retention; 2) Repetition of sale/offer; 3) Recommendation. Delivering value rested on a two-sided technological platform. On one side were the final consumers that could enjoy extraordinary discounts on popular and high-quality items (B2C). On the other side were the large brands that had the opportunity to set up a controlled outlet for both principle products and stock that had not been liquidated through traditional channels (B2B).

The efficient operation of distribution took on a fundamental role. The supply chain was controlled very closely to ensure that the delivery of value to the brands and the clients was achieved as rapidly and efficiently as possible. Operations were a crucial component of Privalia's model.

The items would be reserved with the associated firms a month beforehand, with the negotiations on prices having been concluded and the imaging campaigns having been presented for approval. The products were then kept in the supplier's warehouse until the last day of the marketing campaign, sent and held in a distribution center to await *cross-docking*, or, the moment they were picked up and transported to homes via DHL (see Exhibit 6). Clients were offered a delivery period that fluctuated between 14 and 20 days. With this system, Privalia saved large quantities of money because there was no need for warehouses, they only had to manage their stock for a few days, and they were able to externalize home delivery.

Privalia's employees were known as '*Privalios*', a community of extraordinarily young and talented professionals, recruited not only for their skills, but also for their outstanding attitudes. The 'Privalios' were aligned with high standards of commitment to the firm's values, which served as a filter that helped them select and retain the best talent (see Exhibit 7). Meritocracy was the basis for work relationships within the company, and there were no distinctions made between classes of workers. 85% of Privalia employees were between 25 and 35 years of age, and the overall average age was 27. 65% of the staff was made up of women, and women occupied a large number of the firm's executive positions.

The company also established a very close and lasting relationship with the final clients by communicating with them through multimedia supports like emails, blogs, and social networks (see Exhibit 8). The firm had a sales force that visited and negotiated with premium brands that were likely to offer their products through the online platform, and were supported by a group of technicians that could monitor the digital platform metrics with new methods like A/B Testing[3]. As a result of its particular commercial offering, Privalia cemented its image as a buyer that stood out for its young, cosmopolitan personality, and was very attractive to educated, hard-working, upper-middle class women between 25-35 years old, who followed fashion trends and tended to live in large cities.

Consolidation Phase

In their first fiscal year, the firm saw modest sales numbers. However, from that point on, sales increases were meteoric, and multiplied exponentially year after year.

Table 1
Annual Income

Year	**Sales** (mil Euros)
2006	0.4
2007	4.2
2008	22
2009	60
2010	150

[3] A/B testing is a group of marketing tools oriented toward the conversion of visitors into clients. It involves content experiments that allow for the testing of different versions of a web page in order to discover which factors influence users.

At the end of 2009, Privalia passed *Amazon* and *El Corte Inglés* in the Online Purchases and Classifieds (Compras y Clasificados Online) rankings in Spain, making it the absolute leader in that category with 34% of the online traffic, 10 percentage points more than its closest competitor.[4] The "Quarterly Purchasing and Classifieds Report (Informe Compras y Clasificados)," published by the online measuring and analysis company, *Netsuus*, in the summer of 2008, had already signaled in the great changes taking place in the fashion market as a result of the eruption of virtual outlets:

> *"The private shopping clubs, despite being made up of very few brands, are gaining a foothold on the internet thanks to intense direct marketing work. Brands like Privalia and BuyVip receive 26.8% of their visits from clicks on links, 10% of which are Webmail links (…) Brands in the Beauty and Fashion category are unable to compete with the e-commerce model created around the sale of stocks of large brands, like those of Privalia or BuyVip, that provide an almost endless offering of products, and because they do not have to worry about stocking expenditures or logistics costs, they offer discounts that are impossible to find at physical establishments."*[5]

The rise of Privalia coincided with the explosion of e-commerce in Spain, which was setting records quarter after quarter. According to the Telecommunications Market Commission (Comisión del Mercado de las Telecomunicaciones, CMT), in the fourth quarter of 2009, e-Commerce reached a business volume of 1.574 billion Euros, and processed a record 22.1 million in operations.

Large, globally recognized fashion brands like *Custo*, *Desigual*, *Replan*, *Guess*, *Calvin Klein*, *Tous*, *Diesel*, and *Munich*, began to fix their attention on the increasingly important role being played by these virtual sales and distribution platforms, and opened themselves to the possibility of negotiating collaborative agreements with Privalia. So, in the span of only a year, the company had formed 217 strategic alliances with premium brands. Moreover, the accelerated growth of this business was not lost on savvy investors, who demonstrated interest in participating in the project by supporting firm in various rounds of financing.

Table 2
Rounds of Financing

Year	***Investors***	***Capital Contribution*** *(in millions of euros)*
Round 1 (2006)	Grupo Cabiedes Caixa Capital Risc	0.4
Round 2 (2007)	Grupo Cabiedes Caixa Capital Risc	2.5
Round 3 (2008)	Nauta Capital	4
Round 4 (2009)	Insight Venture Highland Capital Partners	8

At a press conference in 2010, Lucas Carné shared with the media some of the things that had allowed Privalia to achieve such success:

4 Informe Compras y Clasificados. Resumen del Sector 'Compras y Clasificados online' October-Noviembre 2009. Netsuus

5 Informe Compras y Clasificados. Resumen del Sector 'Compras y Clasificados online' July-September 2008. Netsuus

> *"The quality and prestige of the brands that we work with and the efficiency of our delivery service and purchasing set us apart from our competition.The satisfaction of our clients is another element that has allowed us to growas a company, as our community of users has grown rapidly"*[6].

Large Online Competitors

Among the other digital platforms, Privalia's main competitor was the French giant ***Vente Privée***[7]. In 2006, this company – founded in 2001 by Jacques-Antoine Granjon as a driving force in the sale and distribution of premium brands through the Internet, with around 2 million clients in France alone – announced its intention to enter the Spanish market. In 2009, *Vente Privée* reached European sales of more than 843 million Euros.

There was also a rivalry with another Spanish portal called ***Buy-Vip***[8]. This company was founded in 2006 by García Brusilovsky, who rapidly expanded the company into 7 European countries, occasionally with the participation of local partners. In 2009, *Buy-Vip* reached sales of 70 million Euros, which garnered the attention of the North American giant *Amazon*, who was rumored to have been considering a buyout offer.

Competition from Traditional Department Stores

One of the great challenges confronting Privalia was turning itself into a real alternative to traditional retailers, among which ***El Corte Inglés*** stood out as particularly strong. This large national chain of department stores spread throughout Spain had 101,550 employees, 653 million annual visits, and 11 million client cardholders. In 2009, their sales reached 1.6356 billion Euros, with net profits of 369 million Euros. These numbers made *El Corte Inglés* the absolute leader in European department stores in terms of sales volume, ahead of *Marks & Spencer*, and put them in second place worldwide behind *Sears*. The company also marketed products through the Internet, and generated 310 million Euros in sales in that medium.

International Expansion Phase

From the start, Privalia's founders showed great interest in globalizing the company in order to gain value in large markets where they could quickly become industry leaders, and obtain competitive sales derived from international diversification. With this purpose in mind, they entered the Italian market in 2007 after detecting conditions similar to those they had found in Spain a year earlier.

However, the company's true desire was to expand into Latin America, just as successful Spanish companies like Telefónica, Inditex, Banco Santander, and BBVA had done in the past. Penetrating the Latin American market would allow Privalia to **differentiate itself** from online competitors like *Vente Privée* and *Buy-Vip* (which up to that time had only expanded into other European countries), and avoid a frontal attack in a weaker market by becoming the first virtual shopping club in South America. In the words of Lucas Carné:

> *"At first we weren't thinking about expanding, but when we saw we were able to compete head to head with the big boys, we went to Italy (…) Now we have a goal that no longer seems unattainable, and we want to be leaders in international e-commerce."*[9]

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[6] http://pressroom.privalia.com/mexico/2010/02/tras-su-exito-en-brasil-privalia-abre-en-mexico-su-cuarta-operacion-internacional-2/

[7] http://www.vente-privee.com

[8] http://www.buyvip.es

[9] Europa Press (29/07/2008); Economía Digital (22/08/2011)

Miguel Giribet, Country Manager of Privalia Mexico, shared this point of view:

> *"It was a business model that grew very quickly and has worked very well in Spain. Given the success we had in the first year, we jumped to the Italian market in 2007, where we repeated that success, and that allowed us to access the Brazilian market in 2008; in January of 2010, we "landed" in Mexico. There is a very clear strategy in Privalia, which is internationalization, but principally through Latin American countries: this is what clearly distinguishes us from our European competitors."*[10]

Based on this strategy, the company began operations in Brazil in January of 2009, and announced in early 2010 that it would also be investing in Mexico.

Table 3
International Business Development

Year	Country Entered
2006	Spain
2007	Italy
2009	Brazil
2010	Mexico

The strategy for investing in Latin America was based on four pillars:

1. Size of population.
2. Progressive growth of middle class.
3. High rate of growth in penetration of Internet and e-commerce.
4. Difference with respect to European economic cycles, which would facilitate diversification of the company and minimize risk and exposure to European developments.

Upon commencing operations in Mexico, nothing seemed capable of stopping this global business, given its ability to dodge the economic crisis that was beginning to hit Europe.

In spite of this positive news, José Manuel Villanueva remained cautious with respect to the company's future:

> *"Success is very relative. Our success at the project level happened thanks to all the people that had helped us throughout the process. Today, we continue working hard, trying not to forget where we came from, and being conscious of the fact that there is still much to do. The most important thing is to never lose humility."*[11]

Conquest of the Mexican Market

In 2009, Privalia commissioned a market study of Mexico that generated great expectations in the boardroom of the corporate offices in Barcelona, and encouraged the company's top executives to develop a business plan that would allow them to break into the Mexican market. Following much debate, the company found that they were looking at a real **strategic opportunity**, which led them, in January of 2010, to double down on the American continent by approving an investment of 55 million Mexican Pesos (3.5 million Euros) to develop their own structure in that country.

[10] Interview given for KS Magazine (14/10/2010)

[11] http://www.esade.edu/web/esp/about-esade/aboutus/inspiring-futures/testimonialscampaign/josemanuel-villanueva

Table 4
Approved Investment for Privalia Mexico

Year	**Capital Contribution** (in millions of Mexican pesos)
2010	30
2011	25

The goals for this investment were:

- Create a physical structure in Mexico, boosting commercial networks with potential strategic partners.
- Rapidly grow to become market leader in the shortest possible timeframe.
- Take advantage of the affinities and similarities with the Spanish market, and replicate the elements of success.

The idea was to lead the newest international project of a technology company with a completely different and original style: no offices, no ties, and no prejudice for any social class. This was a challenge of passion for a young executive like Miguel Giribet.

With a degree in industrial engineering from Universidad de Navarra and an MBA from IESE, after six years of traveling the world working in operations in prestigious companies such as *Siemens VDO*, *Continental* and *Beagle Consulting* (jobs that allowed him to live in various countries in Europe and Latin America), Miguel met the General Director of Privalia Spain while finishing his MBA in Madrid. It was her that introduced him to Privalia's founders, who in July of 2010 gave Miguel the reigns the company's Mexican division.

Miguel's first task was to create a team of professionals that shared the same vision and mission regarding the business, and to organize a Management Committee composed of people that were highly motivated and fully committed to the project. Miguel's initial impression of Privalia was that of a virtual platform that had recently arrived in Mexico with enormous potential for growth, but also with a considerable margin for improvement.

In an interview with a Mexican fashion and footwear magazine, Miguel described the company's situation in this way:

> *"We have made 180 campaigns in 7 months, with 110 and 120 premium brands, which shows that they trust us and they are now starting to understand this as a viable additional sales channel (…) in Mexico we have tripled the numbers we forecast for this year, and we expect a growth of 200% looking forward to 2011 (…) the target is young people that are interested in fashion, design, novelty, and have upper middle-class purchasing power: 65% of our buyers are women between the ages of 25 and 35, that buy products for themselves, their children, and also for their husbands."*[12]

Miguel was conscious of the challenge implied in controlling and perfecting the technical, operative, and commercial variables inherent in this type of business, as well as the difficulties in managing *hypergrowth,*[13] and facing the great pressure and obligation of making rapid decisions. Furthermore, he knew that competitive sales for Privalia Mexico had to be forged by both sides of the

[12] Interview given to KS Magazine (14/10/2010)

[13] This term refers to a high, sustained level of growth, above the sector average.

business – both on the part of the suppliers, and of the buyers. That is, they had to take care of their offer, and create demand.

The virtuous circle Miguel wanted to establish required an attractive offer that generated demand, which would in turn allow for strengthening and widening the offer, and create a constant positive feedback loop. At that time, the platform marketed the following products (see also Exhibit 9): a) Fashion clothing and footwear for adults; b) Fashion clothing and footwear for children; c) Fashion accessories for women; d) Sportswear; e)Electronic items and f) Watches.

Once familiarized with the principle operation of the payment methods (see Exhibit 10), Miguel shared with his colleagues the following declaration of intent, which would guide their activity as managers:

> *"The search for efficiency in all areas is key, and we will remain focused on continuing to find opportunities to make things easier, faster, and better. "*[14]

Appraising the Potential Market

The consumer sector in Mexico was known for being competitive, demanding, and complicated to manage, which made operations a critical aspect. As a consequence, only the strongest and most efficient companies survived. It meant operating in a unique commercial space with special characteristics far different from those present in European markets.

The main properties of this sector were:

- Highly brand-oriented and aspirational consumption.
- Geographical reach centered on a few very highly populated cities.
- Wholesale market concentrated on big companies.
- High presence of informal economy.
- Proximity to the U.S. market.

According to the 2010 E-Commerce study (Comercio Electrónico 2010) carried out by the Mexican Internet Association (*Asociación Mexicana de Internet*, AMIPCI) and *VISA*, there were 30.6 million registered Internet users in Mexico. In 2009, e-commerce sales reached 24.5 billion pesos, and represented 12% of total sales; a 50% growth in sales was expected for 2010, in an amount exceeding 36 billion pesos. Consequently, e-commerce was not only stealing market share from the traditional sales models, but also experiencing growth greater than the national economy.

Table 5
eCommerce in Mexico

Year	**Total Sales** (in millions of pesos)	**Variation** (%)
2007	10,400	78%
2008	19,700	89%
2009	24,500	24%

Sales in the consumer sector grew beyond those of tourism. Within the consumer segment, the computing category represented the greatest sales volume (21%), followed by cellular phones (11%), electronics (6%), clothing and accessories (6%), and consoles and video games (5%). In terms of forms of payment for e-Commerce, deposits and transfers showed growth of 8% to 15%, while credit card payments fell from 74% to 66%.

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14 http://pressroom.privalia.com/mexico/2010/10/privalia-repunta-en-mexico/

The study included a survey of 1,024 people, from which the following data stood out:

- 65% of those interviewed reported having made some type of purchase online, and of those, 99% said they would make similar purchases again.
- The average expenditure was between 401 and 1,000 Mexican pesos, and the frequency of purchases was every three months.
- 76% of those interviewed said their main reason for shopping online was that it saved time.
- For 54% of those interviewed, the main reason for not buying things online was a **lack of trust**, which is why 81% only purchased items from recognized or recommended websites.
- 51% said that they compared the prices found on the Internet with those in physical stores.

Exhibits 11 and 12 provide more detail about the survey of habits and behaviors.

Competitors Without Borders

When Privalia launched in Mexico, the company encountered three competitors in the virtual outlet sector: *Brandsclub, Hipxik,* and *Geelbe.* However, the difficulties inherent in the industry, coupled with the entrance into the market of a giant like Privalia, assured that these companies quickly drifted off into cyberspace, given that their product offering was now less attractive and garnered less demand.

Experience confirmed the assumption that the Mexican market was not a market for small-time actors. In contrast to its rivals, Privalia's financial robustness – sustained by the strength of its investment – allowed the company to keep up with the pace, create demand, adequately manage their database, and launch aggressive promotions to attract visitor traffic. Therefore, in only six months, Privalia became the absolute segment leader.

Privalia stayed alert to the possible entry into the market of other large and dangerous rivals like *Vente Privée* (see Exhibit 13), or the Brazilian companies *Dafiti*[15] and *Net Shoes*[16] in the full-price market. They did this by monitoring their movements, and they knew it would not be long before they showed interest in marketing their products in Mexico.

Furthermore, they encountered other digital players, though outside their specific niche, that also sold goods online. One of these players was *Mercado Libre*[17], a very popular Latin American e-commerce platform that had been operating since 2003 in countries like Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. *Mercado Libre* had gained such notoriety that by 2007 it was listed on the Nasdaq.

Neither could Prevalia ignore competition from other large Internet portals established in the neighboring United States (or in Europe as well) that offered the option to ship their products to other territories, and benefited from the aspirational quality of purchasing foreign goods. Among these competitors was the luxury site *Net-a-Porter,*[18] founded in the late-90s by Natalie Massenet, which enjoyed 2.5 million monthly visits from women. In 2010, *Net-a-Porter* was acquired by the Swiss company *Richemont,* the largest producer of jewelry in the world, which was valued at 533 million USD (Exhibit 14).

It was clear that borders and geographical limits were largely irrelevant in the business of marketing goods via electronic devices, and so by 2010, Prevalia was facing global competition.

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[15] http://www.dafiti.com.br
[16] http://www.netshoes.com.br
[17] http://www.mercadolibre.com.mx
[18] http://www.net-a-porter.com

The Role of Traditional Mexican Distributors

Of all potential rivals, the large department stores were the most relevant. These stores enjoyed deep penetration in the country, which allowed them to negotiate advantageous agreements in their marketing exclusive fashion brands. At the end of 2010, the sector market share leader was *Liverpool* with 63%, followed by *Sears* with 23%, and *Palacio de Hierro* was in third place with 19%.

Privalia purchased mainly with Liverpool and El Palacio de Hierro. Both chains were perfect advocates of the purchasing culture of the middle, upper-middle, and upper segments in Mexico, which was characterized by the pleasure of browsing, seeing, and touching; an experience animated and supported by marketing oriented toward the client with high levels of service and quality.

Liverpool, the Mexican discount department store chain founded by Jean Baptiste Ebrard in 1847, boasted over one hundred points of sale scattered throughout the country, 1.1 million square meters of commercial space, and was the fourth-largest issuer of credit cards in Mexico (behind the banks *Banamex*, *Bancomer* and *Santander*). 70% of their products were Mexican, and 30% international.[19]

Table 6 – Business at *El Puerto de Liverpool*[20]

Points of Sale	85 stand-alone stores 16 “anchor stores” in malls
Staff	35,254
Earnings 2009	47,003,657 million pesos
Profits 2009	3,786,535 million pesos

El Palacio de Hierro, the Mexican luxury department store chain founded in 1891 by Victor Gassier, marketed products at more than one hundred points of sale throughout the country, and was geared toward a more exclusive socioeconomic segment.

Table 7 – Business at *Palacio de Hierro*[21]

Points of Sale	10 department stores 2 outlets 4 home stores 3 Palacio boutiques 68 boutiques 8 independent restaurants 2 bistros 2 restaurant-stores 4 independent locations 3 beauty clinics
Staff	More than 10,000
Earnings 2009	15,246,000 million pesos
Profits 2009	881,626 million pesos

19 CNN Expansión (21/12/2010)
20 Liverpool Annual Report 2010
21 Palacio de Hierro Annual Report 2010

The large department stores supported part of their marketing through loyalty cards that, in practice, functioned as revolving credit cards. These cards allowed clients to leverage the acquisition of new products at interest rates considerably higher than those offered by banks,[22] assuring large income for retailers.

Both chains were perfect advocates of the Mexican purchasing culture of the middle, upper-middle, and upper segments that was characterized by the pleasure of browsing, seeing, and touching (see Exhibits 15 and 16).

This shopping experience was animated and supported by marketing oriented toward the client with high levels of service and quality. Both *Liverpool* and *Palacio de Hierro* were conscious of their strengths, which is why, although they invested in high-tech websites and were generally on the cutting edge of technological advance, they maintained a cautious position regarding the evolution of e-commerce, and kept a keen eye on social behaviors. In the words of José Antonio Diego, *Liverpool*'s Corporate Treasurer:

> *"In some ways, e-commerce in Mexico did not have the strength it did in other countries, for one because of culture; people here still very much like to physically go to the stores and malls on the weekends as part of a kind of family outing. Another factor that holds back its potential is the limited availability of technological platforms like computers."*[23]

The cultural question was the subject of debate among sector experts. Albert Serrano, Privalia's Global Marketing Director, maintained a different position. For him, the growth of e-commerce in emerging markets was not limited by cultural heritage, but by lack of offerings in the digital channel. However, no one in the department store sector was unfamiliar with the e-commerce boom, and they understood that they were giving birth to new tendencies that could, in the long term, transform the market.

Well-known to all were the tactical moves made by offline *Blockbuster* in an attempt to emulate the virtual business created by *Netflix*; or those made by a number of traditional airlines with high operating costs to create low-cost divisions; both cases highlight defensive moves made in response to the appearance of new tendencies framed by alternative and high-growth business models.

Corporate executives at these large department store chains had questioned whether or not, with the arrival of virtual outlets like Privalia, it was appropriate to encourage marketing via Internet, move part of their business to the network, and synchronize their online and offline models. According to some executives at Privalia, this move could facilitate a closer relationship with young people between 18 and 25 years old in the B and C+ socioeconomic segments. This strategy, however, was not without risk. Meanwhile, at Privalia, many were wondering how to compete with traditional distributors; at the same time these distributors were wondering how to deal with virtual platforms like Privalia's.

The Turning Point

In the summer of 2011, after a year at the head of Privalia Mexico, Miguel was summoned to Barcelona to give a detailed explanation of his business unit's status. The Spanish business model had just recently been tropicalized in Italy and Brazil, and had produced overwhelming results. In spite of the important achievements that had been made up to that point, the results obtained in Mexico continued to fall well short of initial expectations. The platform had many visitors, but the rate at which they were being converted into clients was low – users were navigating the website, they just were not buying anything.

[22] According to the Bank of Mexico (Banco de Méxic), the Total Annual Cost (Costo Anual Total, CAT) of cards from commercial houses fluctuated between 116% and 198%, while the effective CAT of those from banks was 40.9% (Source: CNN Expansión, 23/11/2010)

[23] CNN Expansión (15/11/2011)

Mexico presented characteristics different from Spain, Italy, or Brazil, with great differences in Internet bandwidth speed, communications structure, network security, client consumption behaviors, the increased use of financial services among users, and the lack of confidence among suppliers in selling goods online. Added to this was the fact that negotiations with large brands were not global but regional, which made the marketing process more complex. They were also troubled by receipt and delivery times for items, as well as by the five factors related to the value proposition for clients and suppliers.

After analyzing the company's larger problems, Miguel knew that the factors slowing down the definitive takeoff of the business required him to adjust the mix between the key elements of the firm's business model:

- **Product:** Selection of attractive brands, large collections, and the best prices.
- **Payment alternatives:** Diversity of on/off-line payment options.
- **Confidence among suppliers and clients**: Guarantee of maximum security and professionalism.

Upon arriving in Barcelona, Miguel was received by the company's founders, José Manuel and Lucas, who, according to the firm's custom, began the meeting by sharing the good news that they were about to close their fifth round of financing, which could amount to 70 million Euros. This was nearly nine times more than they had received in the previous round, which clearly showed the enthusiasm among Privalia's investors.

After chatting for a few minutes, José Manuel and Lucas expressed to Miguel their concerns about what was happening in Mexico and bluntly questioned whether or not they had chosen an inopportune time to invest in that country.

They then presented him with three scenarios they wished to discuss:

- **Drastically reduce the budget**, which would entail a major cut of around 30% to technical expenditures, marketing, and personnel, while waiting for the market to evolve.
- **Divest their Mexican interests,** negotiating the total or partial sale of the platform and focusing on other emerging markets.
- **Give a new vote of confidence** to the current team to apply modifications in the commercial strategy and correct detected problems.

Miguel Giribet, secure and confident in his ability to reverse the situation, looked in his briefcase for the executive report he had drawn up with his team. This document related all the difficulties the firm was facing, and proposed a concrete plan of action to boost its marketing strategy. The die had been cast, and it was now time to start redesigning the future of Privalia Mexico…

EXHIBIT 1

Key People at Privalia

José Manuel Villanueva and Lucas Carné, Founders of Privalia

Miguel Giribet, Country Manager of Privalia Mexico

EXHIBIT 2

Fashion at Privalia México

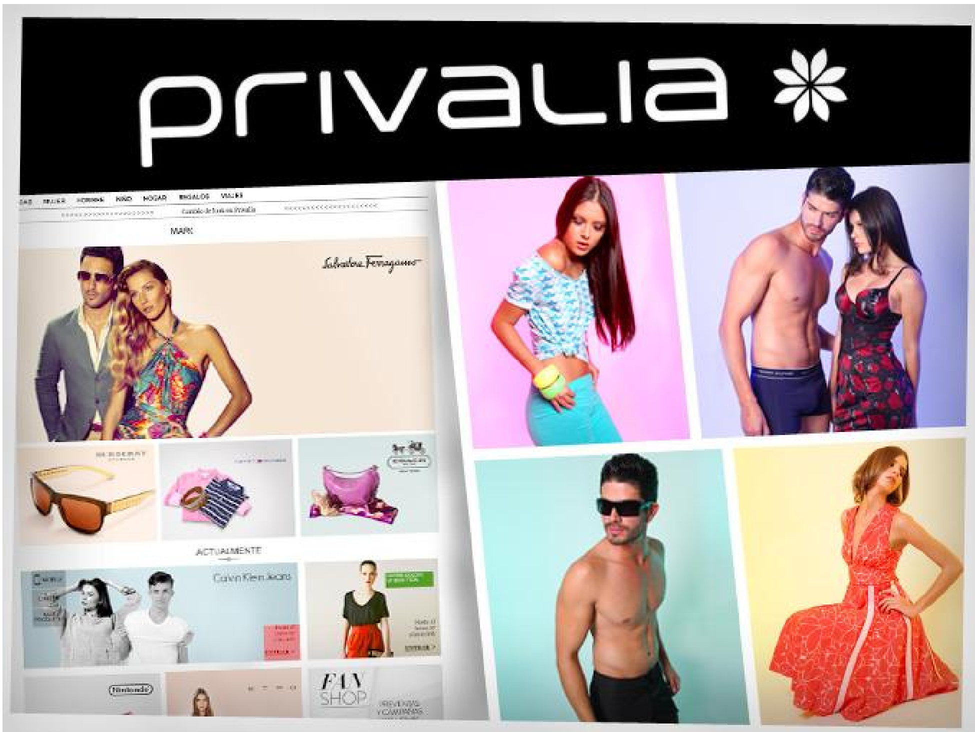


EXHIBIT 3

Advertising Communication at Privalia México

EXHIBIT 4

Value Proposal Directed Toward the Consumer

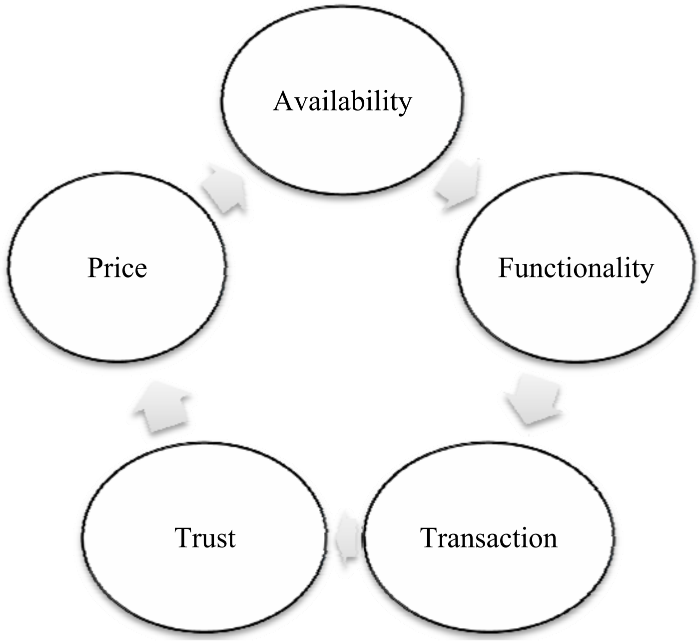


EXHIBIT 5

Value Proposal Directed Towards Brands

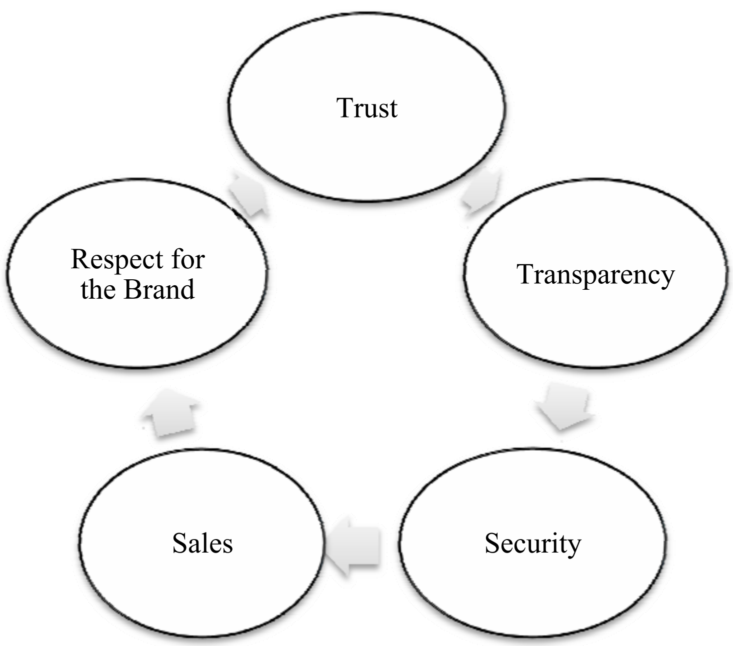


EXHIBIT 6

Distribution Timeline (January-August 2011)

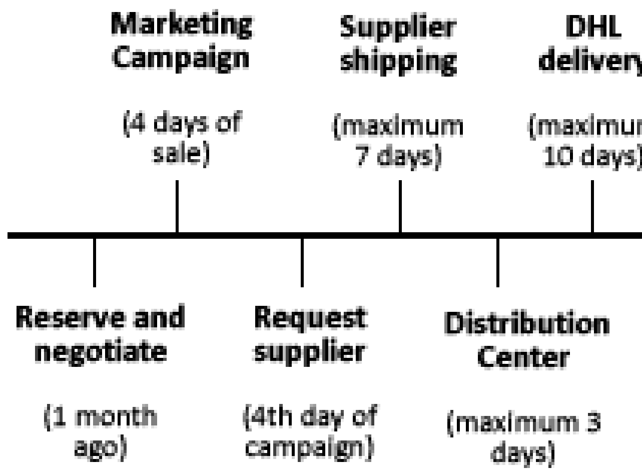


EXHIBIT 7

Offices and Privalios of Privalia Mexico

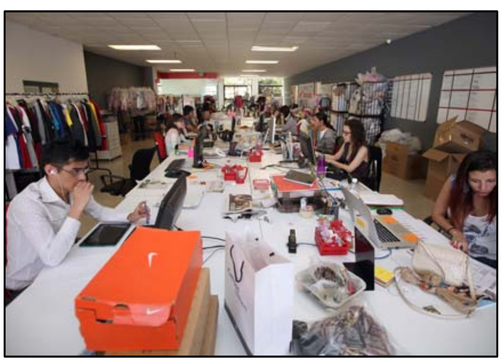


EXHIBIT 8

Privalia Mexico on Social Networks

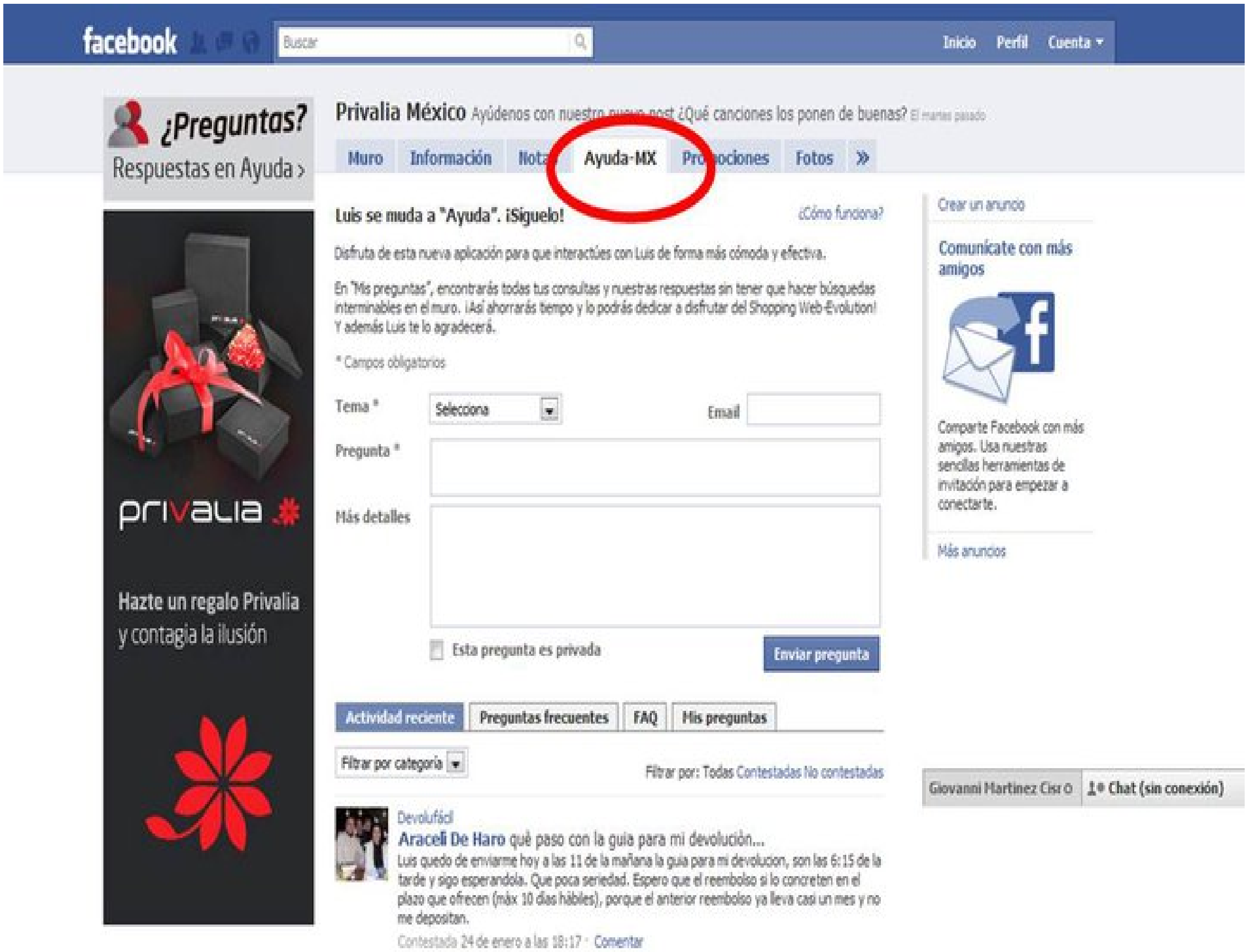


EXHIBIT 9

Best Selling Categories for Privalia Mexico (January-August 2011)

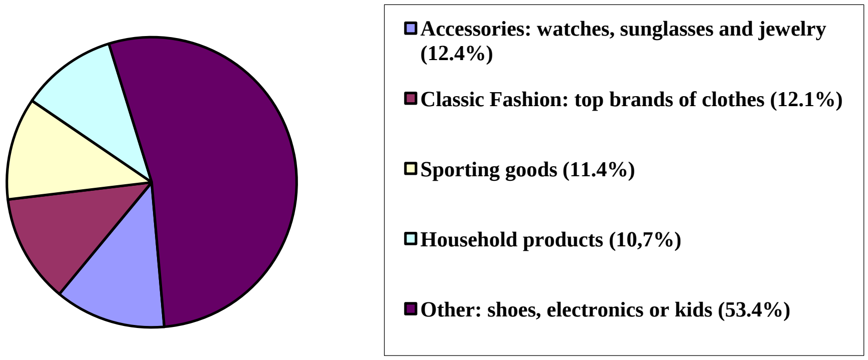


EXHIBIT 10

Most Common Methods of Payment for Privalia Mexico (January-August 2011)

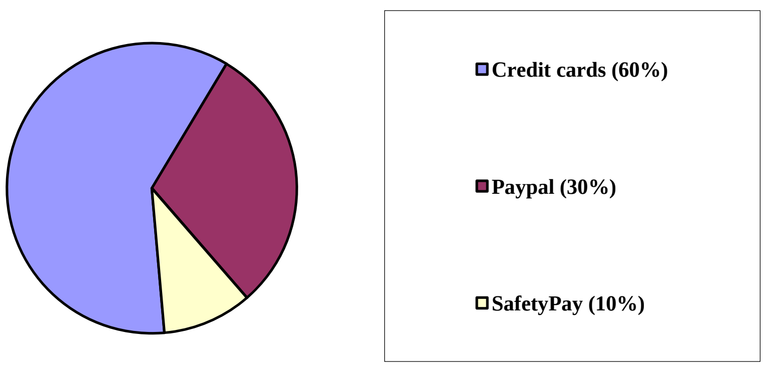
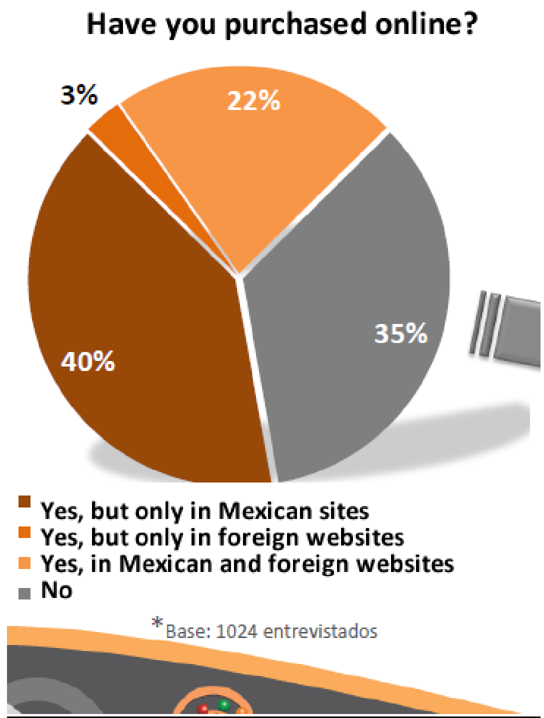


EXHIBIT 11

Shopping Online by Mexican Customers



Source: E-Commerce Study 2010, carried out by the Asociación Mexicana de Internet (AMIPCI) and VISA

EXHIBIT 12

Precautions Taken by Mexicans When Shopping Online

Source: E-Commerce Study 2010, carried out by the Asociación Mexicana de Internet (AMIPCI) and VISA

EXHIBIT 13

Main Page of Vente Privée Website

EXHIBIT 14

Main Page of Net-a-Porter Website

EXHIBIT 15

Liverpool Marketing Campaign

EXHIBIT 16

Palacio de Hierro Marketing Campaign